

COUNCIL AGENDA REPORT

17

DATE:

July 27, 2006

TO:

MAYOR AND TOWN COUNCIL

FROM:

DEBRA J. FIGONE, TOWN MANAGER

SUBJECT:

COUNCIL DISCUSSION AND AUTHORIZATION REGARDING WEST

VALLEY SOLID WASTE MANAGEMENT AUTHORITY BOARD

PROCESS FOR SETTING RATES EFFECTIVE MARCH 1, 2007

RECOMMENDATION:

Council discussion and authorization regarding West Valley Solid Waste Management Authority Board process for setting rates effective March 1, 2007.

BACKGROUND:

Collection Contract

The Town contracts for solid waste collection and disposal services through the West Valley Solid Waste Management Authority (Authority), a joint powers entity consisting of the following four member agencies: Town of Los Gatos, City of Campbell, City of Monte Sereno, and City of Saratoga. The Authority Board of Directors includes one Council representative from each agency; Council member Glickman is the Los Gatos Board member, and Council member Wasserman is the alternate. Authority staff services are provided by Hilton, Farnkopf and Hobson.

The collection services contracts that the Authority holds with Green Valley Disposal Company will terminate on February 28, 2007. As Council has discussed at previous meetings, the Authority has executed a contract with West Valley Collection and Recycling (WVCR) for services to begin March 1, 2007. WVCR is a joint venture of Green Waste Recovery and Green Team of San Jose (dba of Waste Connections, Inc.). Its parent company is the sixth largest solid waste company, and currently provides service to San Jose, San Luis Obispo, Woodside, and several other Northern California jurisdictions.

PREPARED BY: Regina A. Tanner, Community Services Director
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Reviewed by: VS Assistant Town Manager Town Attorney
Clerk AdministratorFinanceCommunity Development
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Since the collection vehicles will be operated and serviced out of the Green Team of San Jose's yard, it is important to note that this operation has an existing labor agreement. For drivers, helpers, and mechanics, there is a labor agreement with Sanitary Drivers and Helpers Union, Local 350, the same union that has a contract with Green Valley Disposal Company. Green Team has entered into a Memorandum of Understanding with Local 350 that will allow WVCR to hire displaced Green Valley employees based on their seniority status.

Recyclables processing will be performed at the GreenTeam Material Recovery Facility, which has an existing labor agreement for sorters, equipment operators, and mechanics, with Northern California Carpenters Union, Local 262.

A summary of the services to be provided by WVCR is attached (Attachment 1). This summary includes information about the cart sizes available for trash, recyclables, and yard waste collection. A portion of a draft public information piece developed by WVCR is also attached (Attachment 2), which lists the dimensions of the different cart sizes.

Legal Requirements

The California Public Resources Code, section 40002, requires and authorizes local agencies to make adequate provision for solid waste handling.

DISCUSSION:

Report Purpose

The purpose of this report is to provide Council with information about the Authority's process for setting collection service rates to be effective March 1, 2007 through June 30, 2008, and to ask Council to authorize its Authority representative to approve the proposed rates. The Authority is scheduled to adopt rates at its August 24 meeting. This early timeline is necessary in order to provide enough time for WVCR to prepare and mail public outreach materials, which will include rate information, and to order the appropriate number of carts in time for the new service start-up on March 1, 2007.

Please note that WVCR will be providing all residential collection services with wheeled carts, rather than in 32-gallon cans. For the purposes of comparison, the existing 1-can service will be equal to a 35-gallon cart, the 2-can service will be equal to a 64-gallon cart, and the 3-can service will be equal to a 96-gallon cart. These are the cart sizes offered by the manufacturer that WVCR has selected. Commercial collection will continue to be provided through wheeled carts and frontend loader bins.

Rate History

The current franchise agreements (with Green Valley Disposal Company) were executed in 1997. The service rates then in place were adopted as the initial rates under these agreements. At that time, the rate structure (the relationship among the various can and cart rates) differed among the

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Authority member agencies and was, in some cases, internally inconsistent. The rate structure had been developed and modified over many years. The franchise agreements called for these rates to be adjusted annually by a percentage of the annual Consumer Price Index, and its motor fuel index.

The new service contract provides an opportunity for the Authority to revise the rate structure to reestablish rational relationships among the rates in order to encourage efficient use of the services, source reduction and recycling, and consistency among the Authority member agencies' rate policies. The assumptions and policies discussed below are intended to help the Authority to achieve these goals.

Basic Rate Setting Assumptions

<u>Initial Rates</u>. As part of the competitive procurement process, WVCR submitted a proposal to perform the services required by the Authority for a first-year cost (including profit) of \$15,689,517. This cost includes the basic services (garbage, recycling, and green waste collection) and extra services (e.g., holiday tree collection, permanent e-waste drop-off site, city-wide clean-ups) requested by the Authority Board. This is known as the company's revenue requirement: the amount of revenue required to compensate WVCR for its services.

Under the terms of the contract, WVCR has the right to collect rates for the services provided to its customers. The Authority establishes and adjusts those rates on an annual basis in accordance with the methodology described in the contract. The contract specifies that the Authority and WVCR agree that the initial rates (the subject of this report) will be sufficient to generate the revenue required for the first sixteen months of the contract. The contract further specifies that "rates shall be fixed and shall not be increased to reflect decreases in revenues below those anticipated by the Authority and Company, nor decreased to reflect increases in revenues above those anticipated by the Authority and Company." Because there is no recourse under the contract for actual revenues being different from those expected when the rates are set, it is critical that the Authority and WVCR agree on both the initial rates and the underlying assumptions used to compute them.

<u>Census</u>. The rates are computed based on the average number of customers by service level reported by Green Valley Disposal Company for July through December 2005, the latest census data available. The census data has been fairly consistent for several years; therefore, it is believed that this time period is reasonable to use in setting rates.

<u>Residential Migration</u>. With the introduction of new services (e.g., a 20-gallon cart, commingled recycling collection), it is likely that some residential customers will decrease their level of service, such as moving from three 32-gallon cans to a 64-gallon cart. While it is impossible to accurately predict the number of customers who will change their service, it is estimated that 5% of the residential customers at each level of service will elect to reduce their service to the next lower level of service.

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Allocation of the Revenue Requirement among Member Agencies. WVCR's proposal did not, and was not required to, allocate the revenue requirement among the Authority's member agencies; rather, it was given as a lump sum of \$15,689,517, as noted above. To calculate the initial rates for each jurisdiction, this total revenue requirement was allocated by service type (residential, commercial, debris box) based on the number of customers in each agency. And, because hard-to-serve customers are more costly to service, the number of hard-to-serve customers was weighted by a factor of 1.6 in determining the number of customers in each agency (more information about hard-to-serve customers follows on this page).

Standard Rate Policies

As a general industry practice, the rate that is set for any given level of service (e.g., collection of a 64-gallon cart once per week) is reflective of the cost to provide that service, as well as reflecting the rate policies of the jurisdiction. For example, consider a jurisdiction that wants to encourage residents to throw away less trash, in order to encourage recycling, and another jurisdiction that wants to encourage residents to throw away more trash, in order to combat litter. These two jurisdictions would likely have different approaches to how they priced a particular level of service. The proposed rates reflect several rate policies. Many of the assumptions are intended to standardize, to the extent possible, the rate structure across all Authority member agencies. This does not mean, however, that the rates will be the same for similar services across the agencies, due to other factors such as the number of commercial accounts or the number of hard-to-serve customers. A brief description of each of these factors follows:

<u>Residential Cart Size Factor</u>. Currently, Los Gatos and Campbell charge more per can for the second and subsequent cans at each residential account; Monte Sereno and Saratoga do not. The extra charge is intended to provide a financial incentive for customers to subscribe to the lowest level of garbage service possible, thereby encouraging recycling. However, the amount of the extra charge is not the same between the agencies.

The Authority Executive Director recommends that the cart size factor be standardized at 1, meaning that the 64-gallon cart rate would be exactly two times the 35-gallon cart rate, and the 96-gallon cart rate would be exactly three times the 35-gallon cart rate. This rate structure is consistent with the current structure used in Monte Sereno and Saratoga. The per-can/cart rate would continue to provide an incentive to encourage residents to recycle as much as possible and to reduce their garbage service.

<u>Residential Recycling Factor</u>. Currently, the recycling portion of customers' rates does not vary in all agencies proportionate to the number of cans of garbage service subscribed to. The Authority Executive Director recommends that the residential recycling factor be standardized at 1, meaning that the recycling component of the rate for subscribers to 64-gallon garbage service would be exactly two times the recycling component of the rate for subscribers to 35-gallon garbage service.

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Residential Hard-to-Serve Factor. All of the Authority member agencies have a hard-to-serve rate, except for Campbell. Hard-to-serve accounts are defined as those that require service by a special, smaller capacity vehicle due to access constraints such as narrow, hilly, or winding streets or alleys; or low-hanging tree limbs or utility wires. The current hard-to-serve premium varies among the member agencies, ranging from 50% to 80%. Between 4% and 6% of residential accounts are defined as hard-to-serve.

The Authority Executive Director recommends that the hard-to-serve premium be standardized at 60%, the average of the current premiums. This means, for example, that a hard-to-serve customer subscribing to a 35-gallon cart would pay 1.6 times the rate for a regular 35-gallon cart.

Other Residential Factors. Some of the member agencies have unique rate categories, which will be continued in the new rate structure. For example, Los Gatos has a low income rate, which will be continued in the new rate structure as the "lifeline" rate. Households eligible for other utility subsidy programs, such as PG&E's CARE program and AT&T's Lifeline service, would be eligible for the lifeline rate, which provides 35-gallon service at the 20-gallon rate.

<u>Commercial Subsidy</u>. To some extent, commercial service subsidizes residential service in each of the Authority member agencies except for Monte Sereno, which has virtually no commercial accounts. This is a common practice in residential rate setting. The amount of the current subsidy likely varies among the jurisdictions, but the exact amount is unknown, as Green Valley Disposal Company was not required to report the cost of service by service type. Campbell has the largest commercial base, followed by Los Gatos, with Saratoga a distant third.

The commercial subsidy for the new rate structure has been determined independently for each member agency. During this process, the goal was to achieve some parity between the residential and commercial rates in all four jurisdictions. In addition, the rates were compared to rates for other Santa Clara County jurisdictions to ensure that the rates were within the range of local rates.

<u>Commercial Bin Size Factor</u>. The current commercial rates have, in most of the member agencies, inconsistent relationships between bins of different sizes. In some cases, larger bins have a lower rate per cubic yard of service than smaller bins. In other cases, even within a single jurisdiction, larger bins have a larger rate per cubic yard of service than smaller bins. The current rate structure was "rolled forward" in 1997 from the previous contract and any rational basis for the rates appears to have been lost.

The Authority Executive Director recommends that the commercial rates be standardized on a peryard basis, such that a 6-yard customer would pay twice what a 3-yard customer would pay, for example. Because there is not currently a rational relationship among the various bin sizes in the rate structure, standardizing the bin factor results in rate adjustments that vary from slight decreases to fairly significant increases in some cases.

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<u>Commercial Collection Frequency Factor</u>. The current commercial rates have, in most of the member agencies, inconsistent relationships among different collection frequencies. In some cases, bins collected multiple times per week have a lower per pick-up rate than bins collected once a week. In other cases, even within a single jurisdiction, bins collected multiple times per week have a higher per pick-up rate than bins collected once a week.

The Authority Executive Director recommends that a premium of 2% be set on collections picked up more than once per week. This will provide a small financial incentive for customers to utilize the most efficient service, while not overly penalizing those customers, such as restaurants and grocery stores, which require more frequent collection due to the nature of their discards, or due to the size of their bin enclosure.

<u>Debris Box Density Factor</u>. The current rates recognize that compactor debris boxes weigh more per cubic yard than loose debris boxes, due to the mechanical compaction of the waste material, resulting in a greater disposal charge at the landfill. However, the relationship between loose and compacted debris box rates is not consistent among the Authority member agencies. The Authority Executive Director recommends that the compactor debris boxes be priced at 2.0 times the loose debris box rate per cubic yard. This factor is based on a study that was done for the City of Sunnyvale and discussions with WVCR.

Because there is not currently a consistent relationship among the various box sizes, standardizing the box density factor results in rate adjustments that vary from some rate decreases to some fairly significant rate increases.

Fees and Surcharges

The Authority member agencies set individual fees and surcharges, which impact their rate payers on an per-agency basis.

<u>Franchise Fees</u>. Currently, all four member agencies collect a 10% franchise fee on the solid waste (garbage) component of the monthly service rate. Franchise fees are not collected on the recycling and green waste fees included in the monthly rates. These services are currently provided under separate contracts.

The new rates will include a continuation of the 10% franchise fee, but under the new, single contract for services, the franchise fee will be applied to the entire rate, including recycling and green waste services. This will result in greater franchise fee revenues (the franchise fee that Los Gatos receives is a General Fund revenue) for each of the member agencies, as shown in the following table:

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	Projected Franchise Fee Revenue		
Agency	FY 2005/06	FY 2007/08	
Los Gatos	\$450,000	\$557,000	
Campbell	\$507,000	\$697,000	
Monte Sereno	\$39,000	\$46,000	
Saratoga	\$298,000	\$447,000	

Agency Surcharges. The current surcharges of each Authority member agency have been verified by staff of each member agency. The proposed rates reflect the current surcharges. In Los Gatos, the proposed rates include the existing Solid Waste Management Fee of \$330,000. This revenue is used to pay for a variety of solid waste-related activities including staff time to participate in the Authority, to coordinate public education campaigns throughout the year, and to perform trash collection in Town parks and other public areas. It also funds Los Gatos's portion of Santa Clara County's Household Hazardous Waste program, which allows Los Gatos residents to dispose of their household hazardous wastes for no charge, through an appointment at a certified drop-off center. The amount of the fee will be unchanged from the current year. This revenue is received in a special fund; it is not a General Fund revenue.

The Authority is currently studying a vehicle impact fee that would be collected from WVCR for maintenance and repair of streets damaged by the heavy collection vehicles. The rate impact will be dependent upon the amount of the surcharge and the method of allocating the fee across the customer base. Based on preliminary information from the study consultant, Los Gatos has included a fee of \$120,000 as a placeholder in the proposed rates, and Campbell has included a fee of \$150,000. The study is scheduled for completion in September 2006.

Proposed Rates

As mentioned above, a full rate schedule for all four member agencies will be adopted by the Authority at its August 24 meeting. Following is a table of representative rates for Los Gatos, for the most popular service categories, which include all of the factors discussed above. Please note that these are the rates as currently proposed, and may be adjusted slightly before adoption by the Authority, based on discussion between the Authority and WVCR and any change to agency surcharges. Each of the rates shown is per month. The residential rates include trash, recyclables, and yard waste collection; the commercial rates include trash and recyclables collection; and the debris box rates include trash collection.

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Service	Current Monthly Rate	Proposed Monthly Rate	Change		
RESIDENTIAL	RESIDENTIAL				
20 gallons	\$11.26	\$13.78	22.4%		
35 gallons	\$16.90	\$18.27	8.1%		
64 gallons	\$35.47	\$36.54	3.0%		
COMMERCIAL					
1.5 yards/1 pickup	\$101.93	\$106.03	4.0%		
2 yards/1 pickup	\$144.11	\$141.38	-1.9%		
3 yards/1 pickup	\$236.84	\$212.07	-10.5%		
DEBRIS BOX					
20 yards	\$386.17	\$469.22	21.5%		
40 yards	\$611.44	\$644.75	5.4%		
12 yard compactor	\$321.81	\$504.33	56.7%		

Proposed Rates Comparison

One measure of the reasonableness of the proposed rates is to compare them to rates for similar service in other jurisdictions. This is challenging, since rate policies vary from jurisdiction to jurisdiction and can have a significant impact on the rates charged. For example, the rates in the City of Santa Clara are subsidized from the City's General Fund. Nevertheless, the following table compares selected proposed rates for each Authority member agency to the high, median, and low rates for jurisdictions in Santa Clara County. Please note that the proposed Authority rates have not been adopted, and member agencies may make changes that will affect the rates shown. Each of the rates shown is per month.

Agency	Residential			Commercial	Debris Box
	35 gallons	64 gallons	96 gallons	3 yards	18 yards
Los Gatos	\$18.27	\$36.54	\$54.81	\$212.07	\$469.22
Campbell	\$17.89	\$35.78	\$53.68	\$189.27	\$302.94
Monte Sereno	\$21.66	\$43.33	\$64.99	\$244.82	\$386.00
Saratoga	\$19.91	\$39.82	\$59.73	\$264.74	\$470.21
SCC High	\$27.62	\$52.25	\$76.87	\$313.70	\$535.29

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Agency	Residential			Commercial	Debris Box
	35 gallons	64 gallons	96 gallons	3 yards	18 yards
SCC Median	\$20.27	\$37.62	\$57.97	\$216.66	\$434.03
SCC Low	\$13.25	\$21.14	\$29.03	\$143.27	\$347.07

Option: Balancing Account

Council member Glickman has asked Town staff to provide an analysis of a balancing account option; or, what would happen if rates were set high enough initially that they would not require adjustment for a number of years. This did occur under the contract with Green Valley, although it was the result of very specific circumstances, rather than an adopted rate policy.

As noted earlier, the Authority has an annual revenue requirement: an amount that it must guarantee to WVCR. Under the service contract with WVCR, this amount will be adjusted annually based on changes to the CPI. Rates are generally set in order that in any given year, they generate exactly enough revenue to meet the revenue requirement. The balancing account option would require Los Gatos to project how much the revenue requirement will likely be for a number of years, based on assumptions about how CPI will change, and set rates high enough that they will generate enough revenue to meet this multi-year revenue requirement over the number of years. Essentially, the amount paid by ratepayers that is in excess of the revenue requirement would be paid by the collection company to a "balancing account" held by the Town, which would then pay out funds to the collection company when the amount paid by ratepayers was below the revenue requirement. Following is a comparison of selected residential rates that would be set for the initial period, with the assumption that they would not be adjusted for two, four, or seven years (the length of the initial contract with WVCR). Each of the rates shown is per month.

Residential Service	Current Rate	Proposed Rate	2-Year Rate	4-Year Rate	7-Year Rate
20 gallons	\$11.26	\$13.78	\$14.66	\$15.60	\$17.13
35 gallons	\$16.90	\$18.27	\$19.41	\$20.64	\$22.65
64 gallons	\$35.47	\$36.54	\$38.83	\$41.28	\$45.29
96 gallons	\$54.05	\$54.81	\$58.24	\$61.92	\$67.94

The benefit of this approach is that ratepayers would know what their monthly collection service rate would be for a number of years in the future.

The Authority Executive Director recommends against the balancing account option. There are a number of considerations that outweigh the benefit of predictability that the balancing account option

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offers, as follows:

- The balancing account option forces current ratepayers to subsidize the rates of future ratepayers. In essence, future ratepayers would enjoy lower rates than they might have otherwise because past ratepayers paid an inflated rate.
- Ratepayers in March 2007 would face a greater rate increase under this option than they would under the proposed rate structure. The greatest number of residential customers subscribe to a single can service; this rate will increase 8.1% under the proposed rates. Under the balancing account option, this rate would increase from 14.9% to 34.0%.
- Opportunities to change the Franchise Fee and Surcharge would no longer be annual, but limited to the years that rates are adjusted.
- The signed contract with WVCR does not include a provision for a balancing account, and therefore there are no procedures in place at this point. Institution of this option would require the agreement of WVCR.
- The greater the number of years that rates are not adjusted, the greater the chance is that the eventual adjustment will be a large increase. The revenue requirement formula takes into account factors such as the Consumer Price Index, and its motor fuel index. These factors can be volatile, and difficult to predict accurately into the future.
- Greater than projected changes in the number of persons subscribing to each level of service may also be a factor; if the census declines and revenue falls short of what was anticipated, a "catch-up" adjustment may be necessary.
- The balancing account option does not further the Authority's stated goal of greater consistency between member agency rates. As none of the other Authority member agencies have expressed a desire to adopt a balancing account, it would instead take Los Gatos further away from consistency with the other member agencies.
- There would be administrative issues for the Town to track the balancing account funds. The existing balancing account with Green Valley Disposal Company has required a great deal of administrative oversight to verify the correct calculation of the amount owed to or from the account.

Council may consider this option for the current rate period, or it may choose to revisit the issue at the time of the next rate adjustment in 2008.

CONCLUSION:

The Authority Board will consider the proposed rate structure at its August 24 meeting. The rates considered by the Board at that time will be essentially those described to Council in this report, but

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there may be minor changes resulting from discussion between the Authority and WVCR. For example, a final report on the vehicle impact fee will be provided to the Authority in September.

Staff recommends that Council authorize its Authority Board representative, Council member Steve Glickman, to approve the proposed collection rates to be effective March 1, 2007. The meeting will be advertised on the Town's website and in the local press.

Once rates are approved by the Authority, WVCR will mail information to all residential customers, and ask them to identify their requested level of service.

ENVIRONMENTAL ASSESSMENT:

The recommended action is not a project defined under CEQA, and no further action is required.

FISCAL IMPACT:

The final rates adopted by the Authority will affect the franchise fee revenue received by the Town. It is estimated that this revenue will increase from approximately \$450,000 to \$560,000 annually. This is a General Fund revenue.

Attachments:

- 1. Summary of Solid Waste Services
- 2. Cart Sizes schematic

Distribution:

Scott Hobson, Executive Director, West Valley Solid Waste Management Authority Paul Nelson, General Manager, West Valley Collection and Recycling Marva Sheehan, Hilton Farnkopf & Hobson Lauren Mende Tacké, Recycling Coordinator Jennifer Miller, Administrative Analyst

West Valley Solid Waste Management Authority

Summary of Solid Waste Services

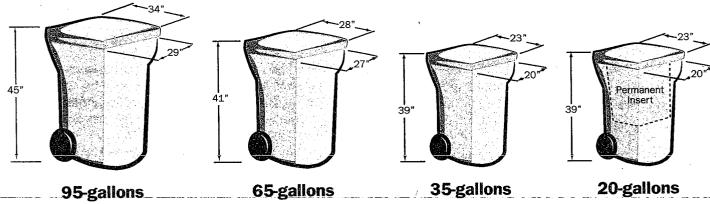
Provided by:

West Valley Collection and Recycling, LLC

Effective March 1, 2007

Service	Current	New
Residential Solid Waste	Weekly, customer-provided container, "backyard" at additional expense	Weekly, automated collection, Company-provided cart, curbside (except for disabled) Cart sizes available: 20, 35, 65 and 95 gallon (or similar
		size)
Residential Recyclables	Weekly, company-provided bins, curbside	Weekly, automated collection, Company-provided cart, curbside (except for disabled) All materials will be placed into one cart (single-stream) Cart sizes available: 35, 65 and 95 gallon (or similar size)
Recyclable Materials Collected Curbside	NewspaperMixed paperGlass containers	NewsprintMixed paperGlass containers
	 Aluminum beverage containers Steel ("tin") cans Bimetal containers; Small scrap metal; Plastic bottles (numbers 1-7) Milk and juice cartons with gabled top; aseptic cartons; 	 Aluminum beverage containers Small scrap and cast aluminum Steel including "tin" cans Bi-metal containers Mixed plastics (#1-7; including containers made of

Service	Current	New
Recyclable Materials Collected Curbside (con't)	 Expanded polystyrene Household dry cell batteries; plastic film; Used oil and used oil filters. 	HDPE, LDPE, PET or PVC) Textiles Aseptic containers Polystyrene Plastic film Used Oil and used oil containers
Residential Green Waste	Weekly, customer container or company provided cart, curbside, unlimited volume	Weekly, automated collection, Company-provided cart, curbside
		(except for disabled) Cart sizes available: 35, 65 and 95 gallon (or similar size) Customer may request up to 3 – 95 gallon carts at no additional charge
Clean-ups	One curbside event annually	One curbside event annually
		Los Gatos has two annual curbside events
E-waste, Batteries, Oil and Water Based Paint Collection	Household batteries, oil and oil filters collected curbside with recyclables	Collected curbside during the annual clean-up event May be dropped off at the Green Team of San Jose's MRF at 625 Charles Street in San Jose
Multi-family Solid Waste (Five-plex or larger)	Weekly, customer-provided can or Company-provided bin	Weekly, Company-provided cart or bin
Multi-family Recyclables (Five-plex or larger)	Weekly, Company-provided carts and bins	Weekly, Company-provided cart or bin (recycling cart with 6 yard, solid waste bin)
Commercial Solid Waste	Weekly, Company-provided carts and bins	Weekly, Company-provided carts and bins



Dimensions are approximate

Mark your cart selections on the card at the back of this brochure and return it no later than Xxxxxxxxx, 2006.

